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In the first year of Communist China's Five-Year Construction Plan, many important projects are under way, with the aid of the USSR. Chinese newspapers have often publicized difficulties in the way of the program but a major setback does not seem in the offing. (SEE MAP)

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THE SOVIET WORLD

The 15 August Soviet note on Germany again serves notice that the Kremlin intends to maintain the East German regime by refusing to compromise on the crucial issue of holding free all-German elections prior to peace treaty discussions and under international supervision. The USSR also provides for the retention of the government of the German Democratic Republic while calling for the formation of a provisional all-German government.

At the same time, the Soviet Union moved to restore stature to the discredited regime by inviting it to send a delegation to Moscow to discuss "the entire German problem" and further the development of friendly relations between the Soviet Union and the German Democratic Republic.

Several of the Satellites have made further changes in their internal programs. Construction on the Budapest subway and the Rumanian Danube-Black Sea canal has been suspended apparently to release substantial labor, equipment and investment resources for projects which will yield more immediate economic advantages. On 8 August, the Hungarian government issued a decree permitting reestablishment of some small private consumer craft and service businesses, and on 12 August the Polish regime announced the extension of tax relief to farmers.

All of the Satellites bordering Yugoslavia have now agreed to examine frontier issues with Belgrade. The Rumanian-Yugoslav and Hungarian-Yugoslav commissions are currently meeting and the Albanian-Yugoslav commission was scheduled to begin work on 17 August. Despite these more friendly actions, Satellite propaganda against Yugoslavia continues to be strongly critical.

In commenting on Malenkov's 8 August speech, both Ambassador Bohlen in Moscow and the British Foreign Office have stressed those parts which give new emphasis to Soviet economic development. Both agree that Malenkov's program for a radical increase in the availability of consumer goods is genuine, even though heavy industry will not be neglected under the new policy.

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The concessions in the agricultural field indicate to the Foreign Office a probable intention to correct the imbalance between the peasants' contributions and their rewards. Ambassador Bohlen speculates that the new encouragement to private agriculture may cause the regime difficulties in the future.

There has been further evidence in the past few weeks that the Soviet bloc is taking measures to promote a rapid but limited expansion of trade with the non-Communist world. On 22 August the USSR and Egypt will sign a trade agreement for the exchange of Soviet wheat, coal and industrial equipment for Egyptian cotton. Earlier this month the Soviet Union agreed to negotiate a three-year agreement with India providing for large Soviet exports of wheat in exchange for various Indian commodities. The USSR and Argentina finally signed their first trade agreement on 5 August.

The Soviet Union is also making additional food purchases from the West: meat and dairy products from New Zealand and Australia, butter from the Netherlands and Denmark, and sugar from Cuba. Russia is offering increasing quantities of petroleum products, manganese and chrome ores, timber, grains, asbestos and platinum both in barter deals and for cash.

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PURGES IN NORTH KOREA STRENGTHEN SOVIET CONTROL

The recent purges in North Korea were directed at the "domestic" faction of Communist leaders, many of whom were influential in the prewar South Korean Communist movement. While the purges and a concurrent reshuffling of party posts have brought some Chinese-trained leaders to greater prominence, the Soviet faction has been strengthened and retains primary control.

The rumors of a large-scale purge which have circulated since February were verified on 7 and 8 August when Moscow and Pyongyang broadcasts announced that 12 officials, including a former foreign minister, had been convicted of plotting to overthrow the Kim Il-sung regime with American assistance. Subsequently, it was announced that Vice Premier Ho Ka-i, long regarded as the key liaison figure between Soviet and North Korean officials, had taken his own life after committing "acts of treason."

Except for Ho Ka-i, the purgees were all veteran Korean Communist Party leaders prominent in the anti-Japanese movement before and during World War II and were leading South Korean leftists until 1949. In that year most of these leaders fled north and merged with the "domestic" faction there to form the Korean Labor Party. Thus the southern leaders were subordinated to the Soviet-Korean clique, headed by Ho Ka-i, who emerged as the chief figure of the combined party's executive staff.

Some among those purged were also prominent in various efforts to subvert South Korea, and included the chief of the Guerrilla Guidance Bureau and the head of the Kumgang Academy which trained underground agents. When Kim Il-sung in 1952 criticized the underground's failure to penetrate South Korea effectively and its "erroneous" application of coercive tactics, these same leaders, plus Ho Ka-i, formed the National Salvation Struggle Alliance in the hope of winning over moderate and leftist Rhee-government leaders by nonviolent means. The alliance, however, proved no more successful than its predecessors.

Since the ousters reportedly began in the period just prior to the resumption in March of the Panmunjom talks, there is a basis for assuming that the purgees opposed the armistice. It is also possible that they constituted a troublesome element of nationalism, and perhaps resisted new Communist plans for

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Korean unification which are expected to be revealed at the forthcoming political conference. A further possibility, if there was not an actual conspiracy, is that the Communists simply found this a convenient time for eliminating officials who had a record of repeated failures.

The reasons behind the disgrace and suicide of Ho Ka-i are less easily explained. He was not a "domestic" Korean but a trusted Soviet representative who was believed to wield enormous power behind Kim Il-sung. He was, however, by virtue of his position in the combined party, associated with the convicted leaders in their efforts to subvert South Korea, and may have accepted responsibility for their failures. If a conspiracy was actually planned, it is also possible that he was blamed for failing to detect it, even with his control of the Labor Party's internal intelligence system.

It is not clear what individual presently holds the real power in North Korea, although Kim Il-sung's prestige may have increased with Ho's death. In any case, Soviet control has not been weakened, since Soviet-oriented Koreans dominate the newly-named key party organizations and Chinese-trained Communists have not significantly increased their influence. Moreover, Soviet control has been strengthened by Nam Il's elevation to the foreign ministry post.

The elimination of men who have previously taken leading roles in attempts to communize all of Korea leaves unclear future Communist plans for unification. Recent propaganda, however, which emphasizes the role of the prewar Democratic Front for Unification of the Fatherland, suggests that there may again be a demand for a combined North-South legislative assembly to form an interim government which the Communists would subsequently hope to dominate. The Communists may bring forward "non-Communist" leaders, including some South Korean legislators who fled north or were kidnapped at the war's beginning, to push such a proposal. This effort may be coupled with new and more intensive underground and guerrilla warfare against the South.

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THE POLITICAL EFFECTS OF THE FRENCH STRIKES

By accentuating the split between the political left and right, the French strike wave has increased the chances of an early fall of the Laniel government, though a showdown may yet be postponed until autumn. Meanwhile, however, the Communist potential for exploiting labor grievances has already grown appreciably.

The strike movement, which began as a rank-and-file protest of utility workers and other civil servants against Premier Laniel's proposed decrees trimming payrolls and raising the retirement age, quickly became a widespread drive for satisfaction of labor's long-standing demands, particularly on wages. The overwhelming response during the traditional vacation month surprised union leaders and led to a move to recall the National Assembly in a special session to handle the crisis. Such a session seems likely before the end of August.

Reconvening of the Assembly would immediately end the breathing spell which Laniel now has for tackling such basic problems as over-valuation of the franc, budgetary and credit difficulties, as well as various defects in the economy. In the June parliamentary crisis the Assembly had already begun to reflect the public's disgust with half-way measures, and as a result Laniel obtained the most extensive peacetime decree powers since Napoleon III. The need for drastic reforms was recognized as well as the likelihood that no segment of the population could expect to escape, regardless of the political complexion of the cabinet.

Laniel's main chance of forestalling Assembly opposition to his reforms lies in moving on to apply the parts of his program affecting business and agricultural interests rather than giving in to labor on the portions to which it objects. A general wage increase would set off a disastrous wage-price spiral, and the farm and business representatives in parliament would be certain to reject his whole program if labor won special concessions. Laniel can, however, attempt to appease the working class by using his special powers to institute immediate tax reforms, launch a broad program of new housing construction, abolish certain restrictive business practices, and further curtail government subsidies to agriculture.

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Furthermore, Socialist leaders in the Assembly, although they regard a special session as necessary, are apparently reluctant to press for a showdown between right and left at this time. Their strategy had called for negotiations leading to a left-center coalition in the fall, but the grass-roots enthusiasm for the strike forced them to take the initiative in requesting a special session now.

In any event, the life of Laniel's government hangs on the continued support of the Popular Republicans, whose strong left wing has long been restive and will now demand some assurance that labor's rights will be protected. This support would be particularly difficult to retain if Assembly debate on his program occurred under the pressure of a general strike. If, moreover, he fell as a result of labor pressure, the prospects for a left-center government, with a program of drastic defense cuts and foreign policy revisions, would be much increased.

In the labor field, Communist leaders have been presented with a new opportunity by the unexpected belligerency of the workers. While real wages have remained stable for well over a year, they are still markedly below prewar standards and the urban worker's resentment at his failure to share in the national recovery has manifested itself on several occasions since the war. Various immediate circumstances, such as the personal wealth of Premier Laniel and the right-wing membership of his cabinet, intensify labor's fears that the government's economy program is more rightist in orientation than it actually is. Furthermore, with the relaxation of international tension, the workers see less reason than a year ago for them to restrain their demands.

The Communist-dominated unions still comprise more than half of all French organized labor, and free union leaders must in self-defense go along with a Communist-led strike based on genuine economic grievances. Hence, if the government fails in the next few weeks to relieve labor's longstanding discontent, a better-organized strike drive, with more harmful political results, can be expected in the fall.

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WEST EUROPEAN REACTIONS TO THE 15 AUGUST SOVIET NOTE

Judged by its initial reception in the main Western European countries concerned, the 15 August Soviet note on German unification seems to have been a failure both diplomatically and as an attempt to defeat Chancellor Adenauer in the 6 September West German elections.

In West Germany, at whose electorate the note seemed principally aimed, its impact was slight since, in effect, all of the general proposals for bringing unification about had been made previously with little favorable response. For example, a proposal for bilateral negotiations with Bonn had been made by the East German government on 15 July, and had been denounced shortly afterwards even by Adenauer's opponents, the Social Democrats. The Social Democrats, who had found no assistance for their unity campaign in the USSR's 4 August note, were seriously embarrassed by the 15 August note's failure to make any new suggestion giving them a talking point in the electoral campaign.

Adenauer was correspondingly encouraged, remarking privately to Ambassador Conant that the note would certainly do him no harm in the elections and might even help. Publicly, he condemned the note roundly, stating that accepting its terms would be tantamount to national suicide. He kept himself on record as favoring continued efforts for German unity, however, by calling for a four-power conference to clear up the confusion caused by the two successive Soviet notes on Germany. The West German press overwhelmingly followed Adenauer's rejection of their terms.

In both London and Paris, officials declared that the Soviet note in no way advanced an actual solution of the German problem. A British spokesman suggested to the American embassy that the Western reply should emphasize the desirability of a four-power conference. Both the British and French governments now seem to feel that the Allied powers should reply to both Soviet notes before 6 September and that the 15 August note will have little effect on the outcome of the West German elections.

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EFFECT OF BERIA PURGE ON ORBIT SECURITY AND ESPIONAGE SYSTEMS

The purge of Beria has been followed by selective dismissal of several of his followers from the top levels of the Orbit security and espionage apparatus. It is not expected, however, that there will be a sweeping purge of the apparatus or that there will be any disruption of the direct Soviet control over Satellite security and espionage systems.

Some top Soviet security officials who owed their positions to Beria probably will be removed, but it is likely that these shifts will take place quietly and without publicity. Since 10 July, the Georgian, Ukrainian, and Azerbaijanian ministers of internal affairs have been replaced. The Georgian minister's dismissal can be directly attributed to Beria's downfall, and the other two may have been for the same reason.

In Georgia the dismissal of MVD chief V. G. Dekanozov and his expulsion from the party were accompanied by criticism of other high officials of the USSR's security apparatus. The most important of those criticized was one Kobulov, believed to be Lt. Gen. B. Z. Kobulov, the former deputy chairman of the Soviet Control Commission in Germany and one of the deputy chiefs of the Chief Directorate of Soviet Property Abroad.

At the time when Beria was first secretary of the Georgian Communist Party, Kobulov, Dekanozov, and General V. N. Merkulov were members of its bureau. All three obtained responsible positions in Moscow when Beria became head of the NKVD in 1938 and have held various top positions in the Soviet security and intelligence organs since that date. While there has been no public announcement of Merkulov's dismissal from his post of minister of state control, it is likely that he too will be purged.

To date, there have been few new developments in the Satellites which can be directly linked with the purge of Beria. East German minister of state security Wilhelm Zaisser was removed from the government in July when his ministry was dissolved and its functions transferred to the Interior Ministry. There was previous but inconclusive evidence that Zaisser was closely connected with Beria. Since his removal, Zaisser has been stripped of his party offices, but there is no indication yet of what further action will be taken against him.

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Albania is the only other Satellite where recent events suggest ramifications of the Beria purge. At the time of a July government reorganization, Minister of Interior Mehmet Shehu gave up his position on the secretariat of the Communist Party. Also, the chief of the influential State Control Ministry, whose background suggests that he is a protege of Shehu, was replaced and designated as deputy minister of agriculture. These and other recent developments suggest that Shehu may have been purged, but as in the case of Zaisser, there has been no conclusive evidence that Shehu was a Beria man.

Both East Germany and Hungary during July eliminated their separate security policy agencies and subordinated their functions to the Interior Ministries. These changes are cut from the same cloth as the new Soviet leaders' decision in March to dissolve the separate state security apparatus in the USSR and give control of the security police functions to the MVD. These are probably not related to the Beria ouster.

Beria, Zaisser, Shehu and other long-tenure security chiefs in the Orbit obviously appointed favorites to leading positions in their security and espionage organizations. The purge of any of them, therefore, would result in the subsequent elimination or transfer of leading subordinates, as is happening in the USSR. It is not expected, however, that there will be a chain reaction purge of lower-level security and espionage officials. Some who are known to be intensely and personally loyal to a deposed leader will be replaced gradually.

Any elimination of additional friends of Beria from Satellite security and espionage organizations will not be permitted to disrupt Soviet control or weaken these agencies which have "Soviet Advisers" assigned to them. Unless there is an extensive purge reaching into the lower echelons of the MVD, which is not expected, the Communist security and espionage system in the Satellites and abroad should not be seriously affected by the Beria affair.

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PEIPING'S INDUSTRIAL CONSTRUCTION PROGRAM ADVANCES
DESPITE OBSTACLES

About 100 important industrial construction projects will be under way in Communist China by the end of this year, the first of the Five-Year Construction Plan (see map, p. 15). The USSR is supplying the design, technicians, and equipment for many of the more important undertakings. Chinese newspapers have often publicized difficulties in the way of this program, but it apparently is not facing any major setback.

Industrial construction this year is budgeted at nearly two billion dollars, or 20.4 percent of the regime's total planned expenditures. This sum includes substantial outlays for geological surveying, mechanizing coal mines, and drilling new oil wells, in addition to building new factories, and is reportedly 2.5 times the planned expenditures last year.

According to a 1 July announcement by Peiping, the aim of the Five-Year Construction Plan is to "concentrate on heavy industry, laying the foundations of industrialization, achieving expansion in the socialist sector of our national economy." In general the regime has followed this program faithfully in the past six months and will probably continue to be guided by it.

Two thirds of the plants reported under construction are in the heavy industry field and are concentrated in Manchuria. While many of these plants are receiving replacements for equipment looted by the Soviet army in 1945, Peiping is also building several large industrial plants described as the first of their kind in China. These include the No. 652 motor vehicle factory at Mukden, factories in Harbin to produce medium-size motors, generators, and precision instruments, and one at Taiyuan in North China to build rolling mills and similar heavy equipment.

The emphasis on facilities to produce finished machinery will tend to correct an imbalance in China's heavy industry, largely built by the Japanese to provide a surplus of pig iron and steel ingots for export to Japan.

No definite industrial goals for the period through 1957 have been reported, and few are believed to have been set. The Chinese press has indicated that throughout the first half of 1953 the economic ministries found it difficult to make realistic

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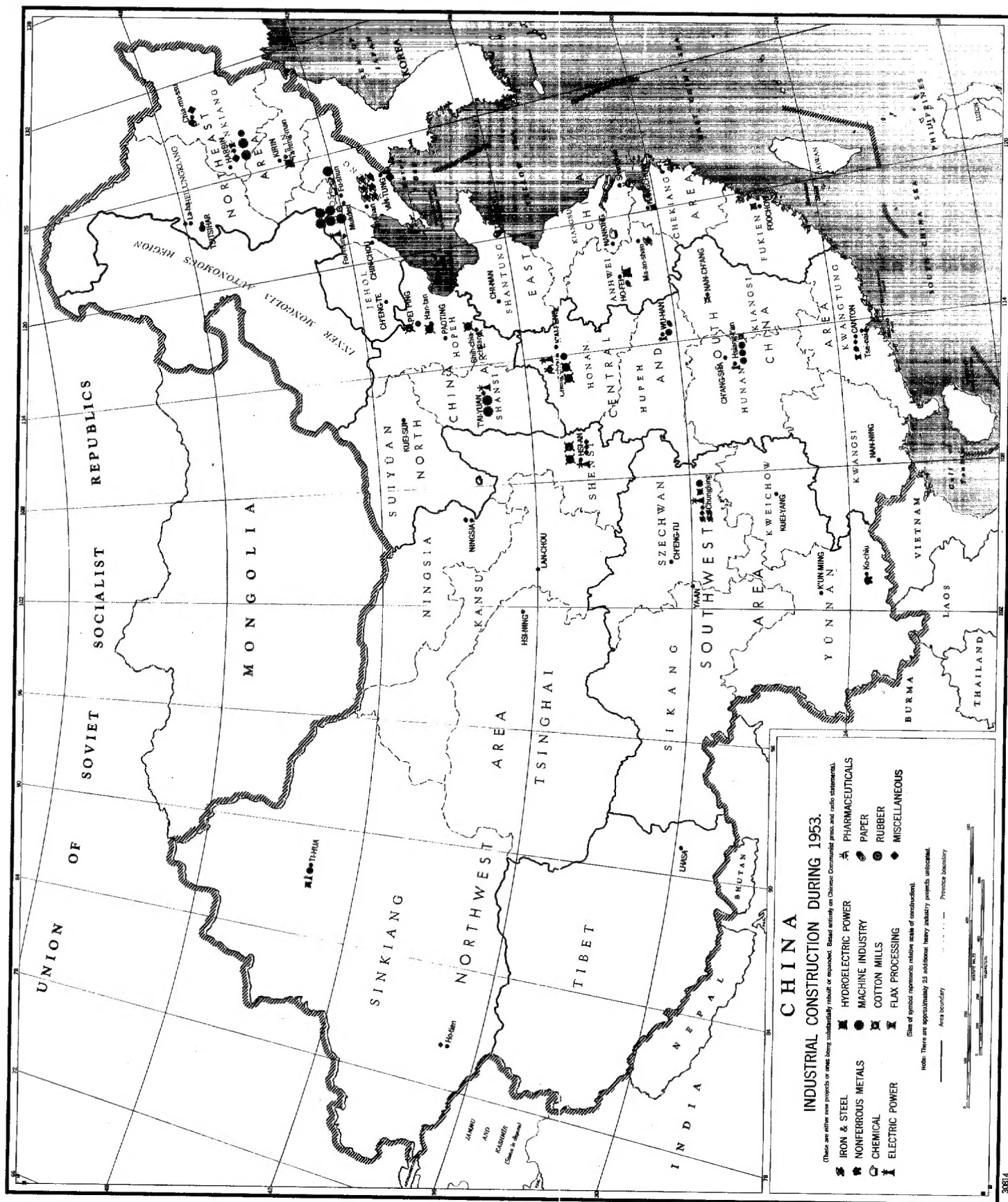
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building plans for 1953 alone. The Committee of Financial and Economic Affairs, the regime's top economic organ, announced in January that the building plans submitted would have to be cut back by 30 percent as a result of the inadequacy of the "present working force and supply of materials." Subsequently, the Ministry of First Machinery Industry, in its third and final plan for 1953 released in April, cut the original proposals by 34 percent.

Inadequate direction by the recently formed State Planning Commission in Peiping appears to have been the principal cause of planning difficulties. Speculation that the cutback resulted from an unforeseen shortage of resources, and thus from a lack of Chinese success in the Moscow talks which began last August, cannot be confirmed.

"Unpunctual delivery of supplies . . . from abroad," i.e. from the USSR, was once cited as necessitating the postponement of certain plans for the No. 652 automobile factory. Such implied criticism of the USSR is rare, however, and the Chinese press has faithfully given the Soviet Union credit for supplying the technology and equipment for the more important projects under way.

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PERON'S EFFORTS TO IMPROVE US-ARGENTINE RELATIONS

During the past few weeks, President Peron has again been making a marked effort to improve relations with the United States. This effort, underlined by the unexpectedly enthusiastic reception given Dr. Milton Eisenhower, has resulted in the most favorable atmosphere of recent years for Argentine-American cooperation. Peron's new policy, however, which is motivated in part by the country's need for foreign capital, will probably be resisted by powerful anti-American elements.

Following the death of Senora de Peron in July 1952, there was a drop in Argentina's vicious anti-US propaganda and, after the November elections in the United States, some indication of interest in better relations with Washington. In February 1953, Peron made overtures to Ambassador Nufer along these lines. Shortly after the 15 April bombing incident in Buenos Aires, however, there was a flare-up of the anti-US campaign in the Argentine press and radio, and obstacles were placed in the way of American news agencies operating in the country.

Last month the Peron regime took positive steps to indicate a change in official attitude. Various Argentine army units and top military officials participated in American Fourth of July ceremonies in Buenos Aires. This was followed by the new press line welcoming Dr. Eisenhower--"The Argentines wipe the slate clean"--thus making it clear to the public that the present official policy is to improve relations. Peron assured Dr. Eisenhower that Argentina would never be on a side against the United States, and stated that the problem of the American news agencies had been completely solved.

Peron has since told Ambassador Nufer that for the first time he feels that the American government is not unfriendly. He is professedly eager to cooperate in solving outstanding problems and intends to "tighten up" on communism. On 6 August he met with a group of American businessmen in Buenos Aires to discuss their problems and a proposed law designed to attract new foreign capital.

Peron has insisted that his motives are strictly to improve relations and that he does not want a loan from the American government, although he would welcome private capital investment. Ambassador Nufer believes, however, and past American experience with Peron supports this view, that Argentina may eventually want some form of economic assistance from

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the United States, and probably a military pact.

At the same time, European nations are showing greater interest in increasing investment as well as trade in Argentina, and ultranationalist and pro-Communist elements among his advisers urge Peron to exploit alternative sources rather than increase economic or political ties with the United States. It seems more than coincidence, for example, that four days after Peron made his first overture to Ambassador Nufer last February, Stalin had an interview with the Argentine ambassador regarding the Soviet-Argentine trade negotiations which led to the agreement signed on 5 August. This trade pact offers Argentina some capital goods on highly favorable terms.

The anti-American elements, which include several cabinet members as well as influential labor leaders, will have various advantages in their expected efforts to block a rapprochement with the United States. They can draw on a deep fund of suspicion strengthened by years of nationalist propaganda.

In any event, the possibility of improved relations with the United States will not lessen Argentina's efforts to strengthen its influence and prestige in Latin America. Peron may, however, believe it now possible for Argentina to gain recognition as an important power in the hemisphere through cooperation with Washington rather than by his earlier method of stirring up Latin American grievances against the United States.

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SYRIA MOVES TOWARD POLITICAL STABILITY

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Syrian dictator Shishakli appears to be attempting a gradual transition from military to civilian rule. After four years of maneuvers to consolidate his position, he is now restoring elements of constitutional government and continues to indicate to the Western powers his interest in fuller cooperation.

In the past several months, Shishakli somewhat altered his strong-arm tactics by trying to win popular support through permitting limited expression of public opinion. He promulgated a new constitution which, unlike all other Middle Eastern constitutions, provides for a presidential rather than the cabinet system of government. It guarantees some civil and political liberties, including woman suffrage, which is granted in no other Arab state except Lebanon. Nevertheless, the voting on 10 July for the constitution and Shishakli's candidacy for president was obviously rigged.

After his election, Shishakli formed a cabinet of capable and reputable but not outstanding personalities. They include independents, former members of the Populist Party, representatives of the Christian minorities, and members of Shishakli's own Arab Liberation Movement.

Shishakli has announced that elections will be held this fall on the basis of a newly promulgated electoral law. Arab Liberation Movement aspirants reportedly are ready to announce their candidacies with Shishakli's backing. He is, however, also encouraging opposition leaders to participate.

These actions do not necessarily signify that Shishakli has adopted a genuinely liberal policy. They do show, however, a cautious relaxation of his dictatorial attitude, reflecting confidence in his own political stability.

He has consistently attuned domestic policies to the temper of the people. His foreign policies--a strong anti-Israeli line, proud independence in dealings with the West, and eloquent orthodoxy on Arab issues--have given little opportunity for internal criticism. His police state has given Syria order, stability, public security, relative honesty in government, and some reforms--something new in its history.

If Shishakli wins actual public endorsement via the ballot box, he may be encouraged to effect a transfer of power to the people and to develop more cordial relations with the West. In early August, his defense minister approached the US on procuring military assistance under mutual security legislation.

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